MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BAC3644 – TAXATION 2

(All sections / Groups)

4 MARCH 2016
15.00 p.m.-18.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 13 pages excluding the cover page with 5 (five) Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

QUESTION 1 (20 MARKS)

Unicorn Tech Bhd (UTB), with a paid-up capital of RM12 million, is a manufacturer of information technology equipment under the brand name 'Sparks'. The equipment is of export quality. The company makes up its accounts annually to 31 December. The income statement of UTB for the financial year ended 31 December 2015 is as follows:

	Note	RM'000	RM'000
Sales			25,000
Less: Cost of sales	1		(19,000)
Gross profit			6,000
Add: other income			
Gain on sale of vacant land	2		600
			6,600
Less: Expenses			
Commission	3	160	
Subscriptions, contributions and donations	4	34	
Office maintenance expenses	5	190	
Marketing and advertising expenses	6	700	
Legal and professional fees	7	102	
Salaries and allowances	8	2,950	
Motor vehicle expenses	9	197	
Sundry expenses	10	4	
Freight and insurance	11	65	
			4,402
Net profit before taxation			2,198

Notes:

1. The cost of sales includes damaged goods written off of RM37,000 and depreciation of plant, property and equipment of RM960,000.

2. A piece of vacant land situated in Seremban was disposed on 15 February 2015 at a gain of RM600,000.

3. The commission was paid to a Taiwan resident, Mr. Tong, for introducing a buyer for the property, as in (2) above. Mr. Tong is a pensioner and undertook this work on a part-time basis. UTB paid him RM144,000, net of withholding tax of 10% on 21 March 2015 and remitted the withholding tax of RM16,000 to the Inland Revenue Board (IRB) on 22 March 2015.

Continued ...

4. Subscription, contribution and donation include:

	Particulars	RM
i	Cash sponsorship of a customer's annual dinner	6,000
ii	Annual trade subscription to the Federation of Manufacturers	11,000
iii	Scholarship expenses for a Malaysian student to study a degree program at a university in Singapore (full-time student and parents' monthly income RM6,000 per month).	10,000

5. Office maintenance expenses include the costs of purchasing two personal computers for RM4,000 each and two air-conditioners for RM900 each. In addition, the company also spent RM45,000 on infrastructure expenses for public use (approved by Ministry of Finance).

6. Marketing and advertising expenses include:

Particulars	RM
i. The expenses for maintaining a sales office in Taiwan for the promotion of exports to the Taiwan market.	490,000
ii. Cash contribution to a non-governmental organization in support of the 'Save the Strays' program designed to save and find new home for stray cats and dogs. The organization is an approved organization.	20,000
iii. Advertisement pertaining to staff and workers recruitment including various business related announcements.	60,000

7. Legal and professional fees comprise:

	Particulars	RM
i	Secretarial fees	31,000
ii	Statutory audit fees	64,000
iii	Legal fees for raising new bank loan	3,000
iv	Legal fees for renewal of a tenancy agreement	4,000

8. Salaries and allowances include an amount of RM41,000 paid to the sales and marketing team to cover expenses incurred to entertain customers and RM4,200 of overseas leave passage for the chief marketing officer.

9. Motor vehicle expenses are trade related.

Continued ...

10. Sundry expenses include:

Particulars	RM
i. Gifts without a business logo for a customer's annual dinner	1,000
ii. Annual general meeting expenses	1,000

11. Freight and insurance comprise:

Particulars	RM
i. Insurance premium paid to an insurance company in Taiwan for an export of cargo to Taiwan.	45,000
ii. Insurance premium paid to Cyber Insurance Bhd, a company incorporated in Malaysia, for imported goods.	20,000

12. The capital allowance for the qualifying assets owned by UTB have been computed at RM1,310,000 for the year of assessment 2015 (inclusive of the capital allowances for the assets acquired during the current year).

Required:

Commencing with the net profit before taxation, compute the chargeable income of Unicorn Tech Bhd. for the year of assessment 2015.
Note: You should indicate by the use of the word 'nil' for any item referred to in the question for which no adjusting entry needs to be made in the tax computation. You are not required to explain the adjustments made in the tax computation.

[Total : 20 marks]

Continued ...

QUESTION 2 (20 MARKS)

Mr. Larry Tan sells organic products at BB Plaza, a business park located in Malacca town. He has been in the business for several years and reasonably successful. He plans to get married soon. In January 2015, he received a letter from the Inland Revenue Board informing him that an audit team would make an inspection visit to his business premise. He worries about the outcome of the audit and asks his friend, Miss Janet to assist him to determine the amount of income that may have been omitted based on the information available with him. Miss Janet does not have any professional qualification in accounting but gain her accounting knowledge through her working experience as an account clerk. Mr. Larry Tan produced the following accounts for the years ending 31 December 2014 and 2015.

Statement of Financial Position of Mr. Larry Tan as at 31 December

	2014 RM 000	2015 RM 000
Capital	410	680
Profit and loss account		
Balance b/f	660	920
Add: Profit for the year	380	520
	1040	1440
Less: Drawings	120	240
Balance c/f	920	1200
Proprietor's capital	**1330**	**1880**
Fixed assets	640	740
Current assets	790	1300
Less: Current liabilities	100	160
Working capital	690	1140
Total net assets	**1330**	**1880**

The following additional information is available from Mr. Larry Tan's other records:

a) He bought a condominium for RM 400,000 in Kuala Lumpur. He paid a deposit of RM 40,000 in January 2015, and the balance was financed by a bank loan.

Continued ...

b) He had won RM50,000 from his gambling activities at Genting casino in February 2015.

c) Soon after, in April 2015, he bought a motorcycle for himself for RM8,000 and paid cash using his winnings.

d) He sold his mutual fund in September 2015 for RM 20,000. The fund was originally acquired in January 2015 for RM 12,000.

e) In February 2015, he invested RM15,000 in stocks listed in Bursa Malaysia. He sold off this investment for RM20,000 in October 2015.

f) He purchased a desktop computer costing RM3,000 in November 2015.

g) Currently he stays in a terrace house acquired in year 2000 for RM125,000. The purchase price was fully settled in 2006.

h) According to Mr. Larry Tan, his private and personal expenses for the year 2015 was estimated to be as follows:

Private and personal expenses	RM
Food and accommodation	30,000
Travelling and entertainment	9,000
Income tax	2,000
Medical expenses	600
Course fees for self-improvement	5,000
Total	46,600

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Required:

a) **Work out a capital accretion statement using the information provided by Mr. Larry Tan to determine whether there is any understatement of income for the year of assessment 2015.**

(14 marks)

b) **Based on your findings, what would be your advice to Mr. Larry Tan?**

(6 marks)

[Total: 20 marks]

QUESTION 3 (20 MARKS)

(a) CMS Sdn. Bhd. is a Malaysian resident company operating in Selangor. In the year 2015, the company was awarded a contract to construct a power plant in Selangor. The company made the following payments in connection with the construction of the power plant.

i) Interest of RM1.8 million on a loan taken from Public Bank to finance the construction of the power station. Public Bank is a Malaysian resident bank operates all over the world.

ii) RM4 million to DT Inc., a Singapore company for the provision of technical services relating to the designing. The services are performed in Malaysia.

iii) RM350 million to Kingston Ltd, a Korean company, for the construction of the power plant. RM50 million is for the services performed and the balance of RM300 million is for the supply of materials and equipment. Kingston Ltd. has a project management office in Kuala Lumpur.

iv) RM11 million to Global Inc. a Hong Kong company, for the right to use its trademark.

Required:

Explain with reasons, whether each of the above payment is subject to withholding tax.

(10 marks)

Continued ...

(b) West Country Bhd, a Malaysian resident company specialising in providing management services to hotels in Kuala Lumpur. On 15 June 2014, the company has signed an agreement with Mutual Limited, an Australian company to provide technical assistance in installing a new system as to upgrade the company's services. The total cost incurred for the technical assistance amounting to RM328,000 and was fully paid to Mutual Limited on 28 April 2015.

Required:

(i) Discuss the withholding tax obligation required to West Country Bhd under the Income Tax Act 1967. (3 marks)

(ii) Compute the amount to be withheld and the due date to pay to the Inland Revenue Board. (2 marks)

(c) Vision Sdn Bhd, a company resident in Malaysia, paid management services of RM950,000 to Phoenix Ltd (Singapore resident) for the general administrative services provided by the company. The services are performed in Malaysia.

Required:

(i) Explain, with reason, whether the above payment is subject to withholding tax. (2 marks)

(ii) Explain the term 'withholding tax' as applied to payments due to non-residents under the Income Tax Act 1967. (3 marks)

[Total : 20 marks]

Continued ...

QUESTION 4 (20 MARKS)

(a) Sutera Pearl Bhd is a manufacturing company with paid up capital of RM3 million. It produces high- technology machine for Malaysia market. The company was granted with pioneer status in the year 2015 and located at the promoted area, Kelantan. For the year ended 31 December 2015, the company provides the following information:

	RM
Capital expenditure:	
Purchase of new high-tech production machine	1,800,000
Extension of factory to increase the production capacity	620,000
Repair of existing machine	210,000
Other information:	
Adjusted income	3,750,000
Capital allowance brought forward	240,000
Interest income	103,000
Cash donation to approved institutions	28,000

Required:

Compute the exempt income, chargeable income and tax liability (if any) of the company for the year of assessment 2015.
Note: You need to compute the relevant capital allowances for the newly incurred qualifying expenditure.

(8 marks)

Continued ...

b) Kayu Jati Berhad (KJB) is a company which manufacture wooden furniture. The company is entitled for Investment tax allowance (of 60%) under Schedule 7A of the Income Act 1967. The profit and capital expenditure for the year of assessment (YA) 2014 and 2015 are as follows:

	YA 2014 RM	YA 2015 RM
Qualifying capital expenditure	1,500,000	700,000
Adjusted income from business	1,750,000	1,900,000
Capital allowances	700,000	800,000
Royalty income	25,000	36,000

Required:

(i) Compute total income of KJB and state the amount to be credited to the exempt income account for the year assessment 2014 and 2015.

(9 marks)

(ii) A company is eligible to apply for reinvestment allowance if it had exited from pioneer status or investment tax allowance. What are the conditions to apply for reinvestment allowance?

(3 marks)

[Total : 20 marks]

QUESTION 5 (20 MARKS)

(a) Aina is a Malaysia citizen purchased a double storey link house in Petaling Jaya from the developer on 1 August 2013 for RM658,000. Aina financed the purchase of the house with a loan from Bank Rakyat. She also incurred RM4,800 for the stamp duty on the acquisition of the house. In December 2015, Aina sold the house for RM850,000. The costs incurred in the connection with the disposal are as follows:

	RM
Valuation fee for the sale	15,000
Advertisement for the sale	2,100
Commission	11,000
Real estate agent's fee on the sale	18,000
	46,100

Required:

(i) Compute the real property gains tax payable (if any) on the disposal of the house by Aina.

(12 marks)

(ii) Under Schedule 4 of the Real Property Gains Tax Act 1976, individual taxpayers are entitled to get exemption when they dispose of the real property. Discuss how this exemption being applied.

(2 marks)

Continued ...

(b) Azuan is a Malaysia citizen owns a number of properties in and outside Malaysia. On his son's graduation day on 30 March 2015, Azuan gave him an apartment as a gift. The apartment was purchased in the year 2007 for the price of RM200,000. The market value of the condominium on 30 March 2015 was RM530,000.

On 30 June 2015, Azuan sold his bungalow in Singapore for RM1.7 million to Mr. Chan. The consideration was paid in full on 15 September 2015. The house was purchased by Azuan on 25 February 2009 at RM500,000.

Required:

Explain the real property gains tax treatment on the transfer of the real property by Azuan to:

(i) his son **(3 marks)**

(ii)Mr Chan **(3 marks)**

[Total : 20 marks]

APPENDIX 1

TAX RATES AND ALLOWANCES

1. Tax rates of resident company for the year assessment 2015

• Company with paid up capital not more than RM2.5 million o On first RM500,000 o Subsequent Balance	20% 25%
• Company with paid up capital more than RM2.5 million	25%

2. Tax rates of non-resident company for the year assessment 2015

All chargeable income	25%

3. Non-resident tax rate (other than non-resident company)

Type of income	Year 2015 Rate of Tax (%)
Interest	15
Royalty	10
Technical and management fees	10
Lease rental of movable properties	10
Other income	25
Section 4(f) income	10

4. Capital allowances

Type of assets	Initial Allowance (%)	Annual Allowance (%)
Office equipment, furniture and fittings	20	10
Plant and machinery – general	20	14
Plant and machinery (heavy) and motor vehicle	20	20
Industrial building	10	3

5. Agriculture and forest allowance

Capital expenditure – Agriculture	Rate of allowance (%)
(a) Clearing and preparation of land for the purposes of agriculture	50
(b) Planting of crops on land cleared for planting	50
(c) Construction on a farm of roads or bridges	50
(d) Construction on a farm of a building used for the welfare of persons or as living accommodation for a person employed for the working of a farm	20
(e) Any other building	10
Capital expenditure-Forest	
(a) Construction of roads or buildings used for the purposes of extracting timber from a forest	10
(b) Expenditure incurred on buildings used for the welfare of persons or as living accommodation for a person employed in or in connection with the extraction of timber from a forest.	20

6. Real property gains tax

Disposal by all persons

Holding Period	Citizen or Permanent Resident	Company	Non-Citizen or Non-Permanent Resident
Within 1 year	30%	30%	30%
Within 2 years	30%	30%	30%
Within 3 years	30%	30%	30%
Within 4 years	20%	20%	30%
Within 5 years	15%	15%	30%
Beyond 5 years	0%	5%	5%

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